

Nikkei South Korea Manufacturing PMI[®]

Operating conditions worsen at a sharper pace in April

Key points:

- Output decreases amid lower order book volumes
- Business confidence eases to six-month low
- Softer inflation of both input costs and output prices

Data collected April 12th – 20th

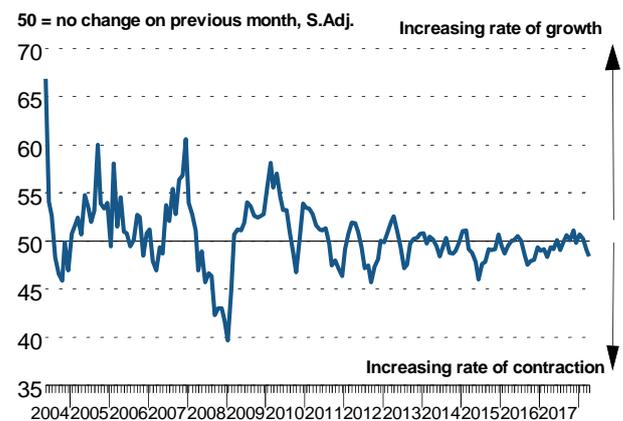
The downturn in the South Korean manufacturing sector intensified during April, with output and new orders falling to sharper extents. Backlogs of work were cleared for a third straight month, while jobs were cut for the first time since January amid lower production line requirements and higher labour costs. Nonetheless, weaker demand pressures did not deter firms from sharing increased cost burdens with their clients by raising output prices.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – registered 48.4 in April, down from 49.1 in March to signal a stronger, albeit modest, rate of deterioration in business conditions across the South Korean manufacturing sector. The latest headline PMI figure signalled the joint-sharpest decline since November 2016, on a par with March 2017.

A moderate decline in production was recorded during April. Moreover, the rate of contraction quickened on that seen in the previous month to the fastest since August 2017. Panellists primarily attributed the decline in output to fewer sales, particularly for electronics and automobiles, as well as shortages of skilled labour.

The reduction in new business was of a similarly-moderate pace to that of output, quickening from the previous month to the fastest since November 2016. Furthermore, the decline in new orders was broad-based, with anecdotal evidence suggesting both domestic and foreign clients had reduced demand. Overseas sales, particularly to China and Japan, were reported to have fallen. Overall, the fall in new export orders was relatively marked, despite

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Sources: Nikkei, IHS Markit

easing on that seen in March. The fall in new business receipts also encouraged manufacturers to scale back both their purchasing and holdings of inputs during April.

Falling inflows of new work enabled firms to clear outstanding business. Backlogs have been reduced in each of the past three months. However, the pace of depletion eased and was mild.

With lower production line requirements, firms reduced employment during April for the first time since the beginning of the year. The softer demand environment was a key factor underpinning the latest round of job cutting. Furthermore, some panellists mentioned that the recent increase in the minimum wage had deterred recruitment.

A lengthening of suppliers' delivery times was recorded in the latest survey period, despite absent demand pressures. Nonetheless, input prices increased strongly, albeit to the softest extent seen across the current nine-month run of inflating costs. In response, firms increased selling prices. That said, the rate of inflation was only slight and softened for a third straight month.

Overall, sentiment towards future output remained positive in April, supported by forecasts of improving demand and planned new product launches. However, the degree of optimism eased

to a six-month low, with some firms citing concerns over geopolitical risks.

Comment:

Commenting on the South Korean Manufacturing PMI survey data, **Joe Hayes**, Economist at IHS Markit, which compiles the survey, said:

“The overall business environment in the manufacturing sector deteriorated at a quicker rate during April. New orders contracted to a sharper degree, leading to a second successive monthly decline in production.

“With output falling, businesses opted to reduce their payroll numbers in April. Evidence from our survey panel suggests that the recently implemented 16% hike in the national minimum wage had underpinned some job cutting. Indeed, the uptick in labour costs, alongside raw material price rises led to another month of sharp input cost inflation. In response, despite lacking demand pressures, firms were pushed into passing part of this burden on to their clients by raising selling charges.

“Although overall business sentiment remained positive, the degree of confidence eased for a third straight month to the lowest since October 2017.”

-Ends-

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Notes to Editors:

The Nikkei South Korea Manufacturing *PMI*® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size, based on the industry contribution to GDP. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, and Transport. Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei South Korea Manufacturing *PMI*® is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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